



OFFICE OF
INSURANCE COMMISSIONER

November 21, 2005

To: Washington State Licensed Disability (Health Care) Insurers including, Mutual and Fraternal Companies offering Accident and Health, Disability (Health Care) Products, Health Care Service Contractors, and Health Maintenance Organizations ("Health Carriers"), Industry Associations, Consumer Representatives, and Other Interested Persons¹

From: Insurance Commissioner Mike Kreidler 

Re: Informational Hearing on Regulation of Insurer Surplus

Over the last several years, health care premiums have increased faster than the rate of inflation while health carrier surpluses have grown, leading many to question why both should occur at the same time.

As Insurance Commissioner, I have kept a careful eye on the financial condition of health carriers to make sure that they have sufficient reserves and surplus to protect consumers and the market. I believe, given the current climate, we must consider whether there should be an upper limit to surplus.

A number of states now regulate what has been called "excess surplus." I am interested in looking at surplus limits in Washington State and appropriate regulatory actions that I might take, including defining "excess surplus" and the possible consequences when an insurer exceeds that maximum value.

In order to gather information about regulating insurer surpluses and to consider these questions, I am inviting you to provide information on this topic in writing or in person at the public hearing.

**Informational Hearing on Regulation of Insurer Surplus
Thursday, December 8, 2005
Columbia Room, State Capitol Building
Olympia, Washington
1:00 - 5:00 p.m.**

If you wish to provide testimony, please address the following questions:

1. What are the pros and cons of regulating excess surplus?
2. How would regulation of excess surplus affect the marketplace?

¹ All Washington HCSC, HMO licensees and the top disability premium writers have been invited to this hearing.

3. What objective measurements should be used to define "excess surplus"?
 - For example, consider the following: a percentage of risk-based capital, a maximum number of months of claims surplus, a stated percentage of the prior year's claims.
 - What other factors should be considered in assessing the level at which excess surplus should be said to occur?
4. To what categories of licensees should a regulation of excess surplus apply? For purposes of this hearing, assume that the regulation would affect all licensed disability (health care) insurers, mutual and fraternal insurers offering disability (health care) products, health care service contractors and health maintenance organizations (including both non-profit and for-profit companies).
 - Are there reasons to exempt some of these health carrier-categories or some of their product lines? Explain.
 - Should each health carrier's surplus be evaluated alone, or should all affiliated companies be evaluated together and a single standard applied?
 - Should dividend distributions of the last few years be included in the calculation?
5. What should the consequences be if a health carrier exceeds the defined limit?
 - For example, consider the following: return premiums to policyholders, freeze rates until the excess surplus is eliminated, pay the amount of excess surplus into some public fund related to health care coverage, or some other option?

In addition to the hearing, each health carrier will soon receive a request for some detailed historical information. Please watch for that request. Accompanying the request will be additional instructions and questions. This information will supplement any information gathered at the hearing. Please submit this information to my office no later than December 30th

You may submit written comments or appear in person. If you plan to testify at the hearing, please RSVP to Kacy Scott at kacys@oic.wa.gov. If you choose to submit written comments, please do so no later than December 9th. You may wish to contact your association to coordinate your testimony or provide input.

The regulation of insurer surplus to be explored at this informational hearing is the surplus for those insurers that write what is traditionally considered to be "health care" coverage. Hence, those insurers who receive this invitation that write only life and disability income coverage may wish to take this into consideration as to whether or not to attend the hearing or submit written comments.

If you have questions about the hearing, please send them to kacys@oic.wa.gov.

I look forward to hearing from you on this topic.